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C O N F I D E N T I A L SECTION 01 OF 02 CONAKRY 000709

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SUBJECT: THE PATH TO HIPC COMPLETION AND DEBT RELIEF

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Classified By: POL/ECON CHIEF SHANNON CAZEAU FOR REASON 1.4 B AND D

¶1. (C) SUMMARY. As the GoG approaches the HIPC completion point, World Bank officials have expressed concern about the GoG's long-term commitment to reform, as well as Guinea's continued political instability. The Bank's visiting regional director solicited the Embassy's perspective on the current political situation. Following on a discussion with Pol and Econ officers last week (reftel), the Bank representatives also discussed the GoG's HIPC debt relief program in further detail. The Bank may be open to higher level discussions regarding its assistance package. END SUMMARY.

¶2. (SBU) Siaka Bakayoko, World Bank Country Manager for Guinea, hosted an informal dinner on November 18 in honor of his visiting regional manager, Mr. Ishac Dewan. Following a meeting with Pol and Econ officers last week (reftel), Siaka wanted to give his regional office an opportunity to discuss the U.S. Embassy's perspective on Guinea's current political situation. DCM, USAID Director, and Pol/Econ Chief participated in the discussion.

¶3. (C) Embassy officials underscored concerns about the current government's political will and capacity to advance key economic and democratic reforms. Although the GoG is making progress towards elections, Embassy noted that most opposition political parties, and the population itself, lack faith that the elections will take place in a transparent, credible environment. Embassy agreed with the World Bank that successful legislative elections represent the best possible solution to Guinea's political turmoil, but noted that the political parties are relatively immature and subject to infighting. Embassy suggested that a new National Assembly, even if it consists of more diverse representation, may not be immediately effective in dealing with the political challenges ahead. Embassy officials also expressed concern about the general potential for civil unrest and/or a military coup d'etat, and the destabilizing effect of increased narco-trafficking and general criminality.

¶4. (C) Dewan said that he would be focusing almost exclusively on political issues during his short visit, which he noted was unusual since he usually focuses on economics. He asked several pointed questions during the course of the discussion and seemed particularly keen to flesh out the implications of various political scenarios that could come to pass in the coming months, especially a military coup.

¶5. (C) Referring to a discussion with Siaka the previous week, Poloff asked for further clarification of the HIPC completion process for Guinea. Both Siaka and Dewan agreed that Guinea has not yet met all the requirements, and although it is certainly within the GoG's grasp to do so, Dewan said that he doubted the GoG would be able to reach the completion point by the end of December. He added that even

if the GoG successfully completes all the requirements on schedule, the debt relief would probably not go into effect until March at the earliest. When asked about safeguards that might be put in place to ensure that the GoG spends the debt savings in accordance with the original agreement and does not incur additional debt, Dewan said that once Guinea reaches the completion point, the GoG essentially faces a "good faith test." Dewan explained that HIPC completion gives the GoG an opportunity to prove its commitment to continued reform.

¶6. (C) However, Dewan noted that achieving HIPC completion is not necessarily automatic. He stated that the decision to grant debt relief is really a political decision, not an economic one. Dewan said that the World Bank could decide to interpret the requirements more rigidly, which could delay the entire process. Siaka nodded in agreement, but said that the original agreement with Guinea was intentionally written with minimal restrictions, which might make it difficult for the Bank to look at the GoG more critically at the end of the process. He implied that doing so could be interpreted as changing the rules of the game just as the GoG is approaching the completion point.

COMMENT

¶7. (C) The World Bank was clearly worried about Guinea's political situation. In the immediate term, they seemed concerned that the current administration may be committed to reform only until it achieves the HIPC completion point, with

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no follow-through after debt relief is granted. In the medium to long term, Bank representatives were worried about the general political instability in Guinea, as well as the uncertain face of the government in the months and years ahead. The World Bank may be open to higher level discussions, such as at the P/DAS or DAS level in Washington, regarding its assistance package and the HIPC completion process. END SUMMARY.
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